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STATEMENT FOR THE RECORD BY  
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BEFORE THE  
SENATE SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS  
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS  
ON

GENERAL ACCOUNTING OFFICE VIEWS ON STATES' EARLY  
IMPLEMENTATION OF THE SMALL CITIES COMMUNITY  
DEVELOPMENT BLOCK GRANT PROGRAM

This statement is being provided to assist the Subcommittee as it considers reauthorization of the Community Development Block Grant Program. It addresses preliminary results of work performed on the progress seven States have made in implementing the Small Cities Program as authorized by the Omnibus Budget Reconciliation Act of 1981.

The 1981 act made changes to the Small Cities Program that not only authorized a State-administered program but allowed a great deal of flexibility to the States in designing their program and method(s) for distributing the funds to meet local community development needs. The act emphasizes public participation to enhance public accountability and facilitate input from different levels of government.

The States we visited are making good progress in taking over the administration of the Small Cities Program and their actions to date are consistent with the 1981 changes. For example, our work showed



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- States used a variety of methods to obtain input into the design of their Small Cities Program and to meet their public participation certifications to the Department of Housing and Urban Development (HUD). Also, citizen input played an important role in determining local community development needs.
- States used different methods for distributing funds and selecting grantees--eligible small cities and counties--but did so primarily on a competitive basis and in accordance with their statement of objectives provided to HUD and the criteria established for that purpose.
- States funded activities in 1982 that reflected their objectives and/or priorities. Most State-administered programs we reviewed differed from the previous HUD-administered program in that the amount of housing rehabilitation funded decreased and either public facilities or economic development activities increased. The percent of low- and moderate-income persons reported to be benefiting from the State-administered program also was less in six of seven States.
- Grantees and unsuccessful applicants generally viewed the State-administered programs favorably. When asked to compare the State program's award process, ability to meet local needs, flexibility in determining population groups to serve, and assistance to local communities with

the past HUD program, both grantees and unsuccessful applicants rated the State program as being equivalent or better.

#### SMALL CITIES--SCOPE OF WORK PERFORMED

We performed our work in seven States: Alabama, Delaware, Iowa, Kentucky, Massachusetts, Michigan, and Utah. These seven States were selected primarily based on the progress they had made in implementing the Small Cities Program and to obtain geographic balance. When we conducted our field work--December 1, 1982, through January 15, 1983--most States were in the early stages of implementing the Small Cities Program. While essentially all had selected their 1982 recipients, all but one had not started monitoring and some were just completing the grant agreements with the local communities. Accordingly, our work was directed toward reviewing the State decisionmaking process through the selection of recipients.

We also sent questionnaires to a statistical sample of 209 of 449 successful (grantees) and 245 of 1,150 unsuccessful applicants in the States to obtain perceptions from the local communities on the State-administered program. Our samples enabled us to make estimates at the 95 percent confidence level projectable to the population universes. An attachment to this statement provides a summary of the more significant questionnaire responses on (1) communication between States and local communities, (2) local community planning, (3) the State grant

award process, and (4) a comparison of the HUD- and State-administered programs.

STATE COMPLIED WITH PUBLIC PARTICIPATION REQUIREMENTS

We found that the seven States reviewed complied with the public participation requirements contained in Title III of the Omnibus Budget Reconciliation Act of 1981. The act requires each State to certify, among other things, that it:

- (1) furnished citizens information about the amount of funds available for proposed community development and housing activities, and the range of activities that may be undertaken;
- (2) allowed affected citizens or, as appropriate, units of local government, the opportunity to examine and comment on proposed statements of community development objectives and projected use of funds, including how the State will distribute funds to local government units;
- (3) held at least one public hearing to obtain the views of citizens on community development and housing needs; and
- (4) made the final statement available to the public.

The States used a variety of methods to comply with the public participation certification. A common method used to distribute program information and to solicit comments from interested parties was the mail. To help assure that program

information was widely disseminated and that citizens were made aware of their opportunity to comment on the State's proposed program, some States also had regional planning agencies distribute program information. Some States also periodically published and distributed newsletters throughout the State to provide current information about the program and its design. Direct contacts by State officials, newspapers and radio were also used to inform the public about the program.

Also, all States held at least one public hearing to obtain views and comments on the program. Some States held more. Utah, for example, held 12 such meetings, Michigan 6, and Iowa 5. Alabama, Delaware, Kentucky, Massachusetts, and Michigan also held workshops to explain the State program to interested parties.

In response to our questionnaires, 77 percent of the grantees and 57 percent of the unsuccessful applicants told us that the State asked for their suggestions on how to formulate and carry out the Small Cities Program. Sixty-five percent of the grantees and 52 percent of the unsuccessful applicants who said they were asked to provide suggestions did so. Sixty-nine percent of the grantees and 64 percent of the unsuccessful applicants said that the communication that took place between the State and the local community prior to implementing the Small Cities Program was adequate.

Citizen input also played an important role in determining local community development needs. Almost all grantees in the seven States utilized individuals and groups that were not part of the local government to help identify community development needs. Also, 80 percent of the grantees conducted a formal needs assessment prior to submitting their applications for Small City Program funds.

For example, eighty-eight percent of the successful applicants said that they used input from participants that were not part of the community government in developing plans for carrying out projects and activities under the Small Cities Program. Forty-one percent of the grantees said that individual citizens participated in the determination of its community development needs, and 27 percent also cited citizen groups' involvement. Others cited frequently as helping to determine local needs were consultants or contractors (42 percent), council of governments (39 percent), regional advisory councils (25 percent), and county officials (23 percent). Fifty-six percent of the grantees stated that input into the local decisionmaking process from these citizens and groups was obtained through public hearings; 61 percent also said input was obtained through meetings open to the public.

Eighty percent of the grantees also said that in order to help identify local community development needs they conducted a formal assessment of such needs prior to submitting their grant applications to the State for funding. Fifty-six percent of the

grantees said that the community government conducted the needs assessment, 29 percent said that it was performed by a consultant or contractor, and 8 percent cited the county government.

STATES ADHERED TO THEIR FUNDING  
OBJECTIVES AND SELECTION CRITERIA

Our review of a statistical sample of the successful and unsuccessful applicants for Small Cities Program funds showed that all seven States selected projects for funding that were in accordance with the statements of objectives and proposed use of funds they provided HUD. We also found that all seven States generally followed their established selection criteria. State methods for distributing funds varied and the States developed a number of different approaches to select specific projects for funding, most of which were on a competitive basis.

For example, we found that five of the seven States, in accordance with the program design they provided HUD, divided Small Cities Program funds among various funding categories prior to determining specific projects to be funded as follows.

- Two States (Kentucky and Michigan) distributed their funds to reflect their priorities for funding specific type projects. Project areas emphasized were economic development, housing rehabilitation and public works.
- Utah allocated its funds among seven planning districts and distributed an equal amount to each district plus an additional amount per each individual in the district.
- Iowa allocated 35 percent of its funds to smaller cities and 65 percent of its funds to larger cities.

--Alabama established categories for specific project funding, and also provided separate allotments for counties, larger cities, and smaller cities.

Four of the seven States--Delaware, Iowa, Massachusetts, and Utah--used a competitive selection process to determine the individual projects to be funded. Basically, all utilized a panel to rank and select the applications to be funded. The remaining three States--Alabama, Kentucky, and Michigan--determined projects to be funded through both a competitive and noncompetitive process depending on the project type. Kentucky, for example, used a competitive ranking system to select applications for housing and public facility projects. It used a noncompetitive process for economic development projects in that State staff and a panel of economic development experts reviewed the applications to determine if they met established criteria.

COMPARISON BETWEEN HUD AND  
STATE-FUNDED ACTIVITIES  
AND POPULATION TARGETED

All seven States funded activities in 1982 that reflected their objectives and/or priorities. In five of the seven States, the State-administered program differed from the previous HUD-administered program in that the amount of housing rehabilitation funded decreased. As a percentage of the total funds awarded, the decreases ranged from 15 percent in Utah to 33 percent in Iowa. In three of the five States (Alabama, Iowa, and Utah) there was a shift from housing rehabilitation to public

facilities. In the other two States (Kentucky and Michigan) there was a shift from housing rehabilitation to economic development.

In six of the seven States the program administered by HUD and the State also differed in that under the State program the percent of low- and moderate-income persons reported as being targeted for benefits was less. For example,

--Massachusetts went down 6 percent (from 90 to 84).

--Utah went down 12 percent (from 71 to 59).

--Alabama went down 13 percent (from 95 to 82).

--Kentucky went down 13 percent (from 85 to 72).

--Iowa went down 15 percent (from 91 to 76).

--Michigan went down 19 percent (from 91 to 72).

In Delaware the percent of low- and moderate-income persons reported as being targeted under the State program went up 1 percent from 94 to 95.

The decreases are not unexpected given the shift in funding from housing activities which can be more easily targeted to specific groups and/or individuals than economic development or public facilities projects that benefit a particular geographic area.

In two of the States the lower income benefit data reported on some projects were minimum numbers. For example, in Kentucky some of the grantees requesting funds for economic development

projects stated only that at least 51 percent of those benefiting would be low- and moderate-income persons. Also, in two other States data on benefits to low- and moderate-income persons was not provided or was incomplete; therefore we could not include it in our overall computations for the State. In Michigan out of 88 grantee applications, such data was not provided on 19 applications. In Utah data was not provided on 8 and was incomplete on 26 others.

It should also be noted that the data used to compare the State and HUD programs was taken from grantee's applications on how cities planned to spend their block grant funds rather than how they actually spent the money. While reporting requirements had yet to be finalized in the States we visited, most anticipate including actual benefit data. We believe actual benefit data, to the extent possible, should be used in measuring benefits to lower income persons from block grant assistance. We addressed this issue recently in our report "HUD Needs To Better Determine Extent Of Community Block Grants' Lower Income Benefits" issued November 3, 1982, and in our testimony before the House Subcommittee on Housing and Community Development on December 7, 1982.

VIEWS OF GRANTEES AND  
UNSUCCESSFUL APPLICANTS

Grantees and unsuccessful applicants in the seven States we visited generally viewed the State-administered Small Cities Program favorably. For example,

--A majority of both grantees (85 percent) and unsuccessful applicants (52 percent) familiar with the State's method used to select grantees, labeled the process as fair.

--Ninty-one percent of the grantees and 66 percent of the unsuccessful applicants believed that the projects and activities encouraged by their State program were adequate or more than adequate to address the development needs of their communities.

--Of the grantees and unsuccessful applicants (66 percent and 44 percent respectively) receiving application assistance from States, most rated the assistance as helpful or better.

Sixty percent of the grantees and 61 percent of the unsuccessful applicants said they had participated in the HUD Small Cities Program. When asked to compare specific aspects of the State program with the past HUD program these applicants generally rated the State program as being equivalent or better. For example,

--Sixty-six percent of the grantees and 56 percent of the unsuccessful applicants said State application procedures were less or much less burdensome than HUD's.

--Seventy-nine percent of the grantees and 78 percent of the unsuccessful applicants said the State program allowed the same or wider variety of projects and activities than could be funded under the HUD program.

--Ninty percent of the grantees and 83 percent of the unsuccessful applicants said the State program allowed communities equal or more flexibility than HUD's program in determining population groups to serve.

--Eighty-five percent of the grantees and 82 percent of the unsuccessful applicants said that the emphasis or order of the State's priorities is equal to or more consistent with the community's priority of development needs than under the HUD-administered program.

--Eighty-four percent of the grantees and 71 percent of the unsuccessful applicants said that the State method for granting awards was equal to or fairer than the method used by HUD.

--Seventy-eight percent of the grantees said that the State's technical assistance was equally as helpful or more helpful than the technical assistance provided by HUD.

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In summary, all of the seven States we visited solicited and obtained comments from citizens, local governments, and other affected parties in designing their Small Cities Program, and complied with the public participation certifications they made to HUD. All seven generally adhered to their funding distribution objectives and selection criteria. Most State-administered programs differed from the previous HUD-

administered program in that the amount of housing rehabilitation funded decreased and either public facilities or economic development activities increased. The percent of low- and moderate-income persons reported to benefit from the State-administered program also was less in six of seven States. Both grantees and unsuccessful applicants generally viewed the seven State-administered programs favorably, stating, among other things, that the selection process, the ability to meet local needs, the flexibility in determining population groups to serve, and the assistance to local communities were equivalent or better than the HUD-administered program.

GRANTEES AND UNSUCCESSFULAPPLICANTS VIEWS ON STATE PROGRAM

We sent questionnaires to a statistical sample of both the successful (grantees) and unsuccessful applicant universes in each of the seven States we visited to obtain perceptions from the local communities on the State-administered program. Our samples enable us to make estimates at the 95 percent confidence level projectable to the population universes. The results presented below represent responses weighted to reflect the responses of the population sampled. The range of response rates in the seven States for the successful applicants was from 76 to 100 percent. The range of response rates in the seven States for the unsuccessful applicants was from 62 to 100 percent. The aggregate response rate for the successful and unsuccessful applicants was 90 and 84 percent respectively.

The successful applicant questionnaire was designed to obtain information on the local community's input into the State decisionmaking process in designing its program, the way in which the community planned for, applied for, and is using the funding it received, and the community government's views on the way in which the State conducted the program compared with the past HUD-administered program. We asked that the views expressed be those of the highest level government official familiar with the community's experience under the program.

The unsuccessful applicant questionnaire was also designed to obtain information on the local community's input into the State's decisionmaking process in designing its program, the way in which the community applied for funds, and the community government's views on the way in which the State conducted the program compared to the past HUD-administered program. We also asked unsuccessful applicants questions concerning the State's decision not to fund their projects. As in the successful applicant questionnaire, we asked the views expressed be those of the highest level government official familiar with the community's experience under the program.

**I. COMMUNICATION BETWEEN STATE AND LOCAL COMMUNITIES**

<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
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**State informed community of intention to have small cities program**

Yes	97	92
No	3	8

**Method by which State provided information**

(Respondents could check more than one item)

Meetings	75	70
Mailing	89	79
Individual communications	35	25
Other	22	13

**State requested community's suggestions on how to formulate the program**

Yes	77	57
No	23	43

**State requested community's suggestions on program regulations**

Yes	78	63
No	22	37

**Adequacy of communication between the State and community prior to implementing the program 1/**

Much more communication than adequate	5	1
More communication than adequate	14	8
About an adequate amount of communication	69	64
Less communication than adequate	7	14
Much less communication than adequate	1	4

1/In the following cases where the responses do not add up to 100 percent the respondents said they had no basis to judge.

II. COMMUNITY PLANNINGGrantee  
percentPersonnel outside the local government  
participating in community development  
planning

Yes	88
No	12

Personnel outside the local government  
who participated in community development  
planning

(Respondents could check more than one item)

Individual citizens	41%	Citizen groups	27%
Consultants or contractors	42%	County officials	23%
Regional advisory council	25%	Council of governments	39%
Associations	6%	Other parties	15%

Means by which citizens participated  
in local decisionmaking process

(Respondents could check more than one item)

Individual visits, telephone calls or letters to community government officials	39
Meetings open to the public	61
Public hearings held by the community's government	56
A formal program of submitting proposals for suggested projects and activities	9
Other	11

Formal community needs assessment  
conducted prior to application

Yes	80
No	20

Party that conducted needs assessment

(Respondents could check more than one item)

Community government	56
Consultant or contractor	29
County government	8
Other	26

III. STATE PROGRAM'S ASSISTANCE,  
AWARD PROCESS, AND ABILITY  
TO MEET LOCAL COMMUNITY  
DEVELOPMENT NEEDS

<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
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Applicants receiving State  
assistance in preparing application

Yes	66	44
No	34	56

Helpfulness of State assistance  
in preparing application

Very great help	27	17
Great help	46	30
Moderate help	15	27
Some help	11	19
Little or no help	1	7

Familiar with State's  
award process <sup>2/</sup>

Very familiar	36	15
Familiar	55	59
Unfamiliar	10	26

Responses on fairness of the  
award process from those familiar  
with the process

Very fair	30	9
Fair	55	44
Neither fair/unfair	10	23
Unfair	5	21
Very unfair	-	4

Adequacy of State program  
to meet local needs

Much more than adequate	9	4
More than adequate	25	12
Adequate	58	50
Less than adequate	5	24
Much less than adequate	1	3

<sup>2/</sup>Percentages of respondents will sometimes total more or less than 100 percent due to rounding.

IV. APPLICANTS' COMPARISON OF STATE PROGRAM WITH FORMER HUD PROGRAM <sup>3/</sup>

<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
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Percent that participated in HUD's Small Cities Program

Yes	60	61
No	40	39

Application procedures

State procedures much more burdensome	2	4
State procedures more burdensome	5	5
State procedures about equally burdensome	27	35
State procedures less burdensome	47	42
State procedures much less burdensome	19	15

Eligibility requirements

State requirements much more difficult	-	6
State requirements more difficult	5	7
State requirements about equally difficult	70	64
State requirements less difficult	20	23
State requirements much less difficult	5	-

Variety of projects or activities that can receive funding

State allows much wider variety	4	3
State allows wider variety	27	25
State allows about same variety	47	51
State allows narrower variety	8	12
State allows much narrower variety	6	5

<sup>3/</sup>Responses to specific comparisons represent those who said they had participated in HUD program.

<u>Flexibility in determining population group to serve</u>	<u>Grantee percent</u>	<u>Unsuccessful applicant percent</u>
Much more flexibility in State program	7	3
More flexibility in State program	25	21
About equal flexibility in State program	58	60
Less flexibility in State program	2	7
Much less flexibility in State program	-	2
<u>Consistency of program priorities with local community's development needs</u>		
State priorities are much more consistent	8	1
State priorities are more consistent	28	19
State priorities are about equally consistent	49	62
State priorities are less consistent	5	9
State priorities are much less consistent	1	3
<u>Fairness of the award process</u>		
State method is much fairer	10	7
State method is fairer	25	8
State method is about equally fair	48	56
State method is less fair	5	15
State method is much less fair	3	8
<u>State technical assistance</u>		
State assistance is much more helpful	14	
State assistance is more helpful	34	
State assistance is about equally helpful	30	
State assistance is less helpful	11	
State assistance is much less helpful	3	